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Pet Food Market in Brazil

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Report Highlights:

Pet food market in Brazil reached US\$ 6 billion in 2011, which is indicative of the rapid expansion in this market. Improved economic conditions and growing middle and upper-middle class are purchasing increasing amount of pet food. As a result, the market is demonstrating new trends such as functional and fortified pet food products. U.S. pet food exports to Brazil in 2011 were US\$ 506,000. Good opportunities exist for U.S. pet food ingredients.

General Information

Economic growth is expanding the size of the middle class, with this group now accounting for 55 percent of all Brazilian society, according to a report published by the highly respected Getulio Vargas Foundation (FGV). As a result of improved economic conditions, the Brazilian segments of the emerging middle class (classes C and D) have been able to add a number of products to their collective shopping basket including non-essential products such as pet food. Growth in pet food retail value and sales volume indicates a fundamental development taking place in Brazil in recent years. Expansion in the consumption of commercial pet foods has attracted the attention of companies manufacturing in Brazil as well as U.S suppliers. This market has expanded rapidly with pet product sales at US\$ 5.5 billion (R\$ 11 billion) in 2010 reaching US\$ 6.0 billion (R\$ 12 billion) in 2011.

Market Overview

Industry statistics on Brazilian pet food production are compiled by the Brazilian Pet Food Industry Association (ABINPET). The production of pet food in Brazil is expected to rise about 3 percent in 2012. Brazil's total production for pet food is 1.968 million (MMT) in 2011, almost a 5 percent increase from the previous year.

Animal Population – Million		
	2010	2011
Dogs	34.3	35.7
Cats	18.3	19.8
Fish	25.0	25.0
Birds	18.0	18.5
Others	2.08	2.1
Total	97.7	101.1

Source: Brazilian Association of Pet Food Industries – 2011 (ABINPET)

Production Feed category – Million MT		
	2010	2011
Dog and cat food	1.849	1.938
Other pet food	0.028	0.030
Total	1.877	1.968

Source: Euromonitor International

Pet care sales are no longer confined primarily to upper-income consumers in Brazil. Increasing levels of disposable wealth are allowing more lower-income consumers to enter the marketplace for the first time, typically at the economy end of the price range. This phenomenon has helped push value growth for the economy level dog and cat food ahead of more expensive mid-priced and premium products.

Brazilian consumers are buying pet food in larger quantities than in the past and also moving from table scraps and home-cooked food to packaged/prepared pet food, especially for dogs. Pet care manufacturers, domestic and multinational alike note the fact that once consumers enter this market, they tend not to leave it barring no dramatic economic event. Brazilian consumers also tend to trade up, meaning that the economy pet food consumers of today may well be the mid-priced or even premium consumers of tomorrow.

The Brazilian market is growing fast for premium pet foods. About 6 percent of sales are the super premium lines and 20 percent are for the premium products (see table below). The largest market share is for basic lines which account for 50 percent. The next largest is the standard dry product which typically is sold in supermarkets with 22 percent. The market for canned pet food is small and consumers prefer dry product with canned food product as a treat on special occasions. Dry dog food represents more than 90 percent of total dog food sales value. Dog owners overwhelmingly prefer dry dog food to wet food options. However, a few products begin to present alternatives to the traditional dichotomy of dry and wet dog food. Such alternatives include dry dog food with sauces and soup options; that is, dry dog food that comes either with a sauce or which is designed to be added to warm water to acquire a creamy consistency.

Sales by segment – Pet Food	
Basic product	50.2%
Standard product	22.6%
Premium product	20.7%
Super premium product	6.4%

Source: Brazilian Association of Pet Food Industries – 2011 (ABINPET)

Production – Dog Food

Classification	Volume (Thousand mt)
Dry product	1,511.4
Semi-wet product	3.7
Wet product	8.4
Treats/snacks	14.0
Total	1,538.5

Production – Cat Food	
Classification	Volume (Thousand mt)
Dry product	286.2
Wet product	5.9
Treats/snacks	1.5
Total	293.6

Source: Brazilian Association of Pet Food Industries – 2011 (ABINPET)

Sales of Pet Products by Category – Value US\$ million		
	2010	2011
Dog and cat food	4,605.27	5,135.74
Other pet food	787.10	920.70
Total	5,392.31	6,056.44

Source: Euromonitor International
Exchange rate 1 US\$ - R\$ 1.80

Trends in Brazilian Pet Food Production

As a growing number of Brazilians adopt healthier diets, and Brazilian households increase their consumption of organic food and beverage products, the rising tide of pet anthropomorphism facilitates transmission of this trend into the pet food market. Natural and organic products could become the next trend in pet food.

Another segment is increased humanization and, as pets become part of the family, pet owners concerned about their pet's longevity and overall health conditions, increasingly turn to fortified and functional foods products. Ingredients, prebiotics and vitamins, such as vitamin D and Omega 3, present in human diets are other emerging markets. Additionally, as incomes rise, consumers are becoming less sensitive to price, so decisions revolve around product characteristics.

Manufacturers of fortified and functional products are adding even more functionality to differentiate products from others brands, particularly in the premium and super premium segments. Multinational and national manufacturers present new products and new lines in an attempt to offer food items to address specific needs. Fortified/functional products have become increasingly segmented by age, size

and breed, particularly in dog food. So far, cat food has witnessed more limited segmentation strategies.

Distribution Channels

Multinational players have held a stronger presence in grocery retail chains in large urban centers with domestic players dominating regional retail, with high penetration in resellers located in small towns (agro products). As economic conditions improve, large grocery retailers expand to smaller towns, and focus on retail formats which can best gather new customers. Pet foods are sold by pet stores, veterinarian clinics and stores which sell other animal feed and general products for farming and home gardening. Pet specialist retailers are responsible for 47 percent of dog food sales by value. Thus far, pet shops and megastores have been able to sustain advantages over grocery retailers by offering wider product assortment and service. As the number of pet food options increase, sales assistants become crucial elements in guiding pet owners through the maze of alternatives.

Competitive strategies adopted by pet food manufacturers include promotional campaigns at the point of purchase aiming to inform consumers as well as to train salespeople about product characteristics and benefits. According to pet food manufacturers, sales are more directly related to consumers' information about products than to price. As such, salesperson training is crucial to market development.

Some manufacturers undertake point-of-sale initiatives designed to inform consumers about pet food products. College students studying veterinary medicine are present at pet shops to answer questions about pet nutrition and to stimulate trial. Premier products focus their initiatives on training and helping pet shop salespeople understand product benefits as well as on how to better display merchandise and product samples. Promotional material such as banners and product sampling are also distributed.

Trade and Import Regulations

U.S. pet food exports amounted to US\$ 506,000 in 2011. The best opportunities for U.S. companies remain in the segment of the ingredients for pet food as Brazil has several multinationals. These Brazilian companies still need the ingredients for their formulations. As the market starts to increase and require innovative products, U.S. companies have an important role in terms of supplying new ingredients to meet this demand.

Brazil Import Statistics						
Commodity: Pet Food, HTS code: 2309.10						
Calendar Year: 2009 - 2011						
Partner Country	2009		2010		2011	
	USD (,000)	Quantity (mt)	USD (,000)	Quantity (mt)	USD (,000)	Quantity (mt)
Argentina	3,240.71	2,414	5,178.42	3,656	4,498	3,288
Austria	305.28	149	330.76	156	1,088	395
China	172.29	16	176.36	15	573	44
United States	215.92	231	378.48	409	506	539
Germany	-	-	44.10	35	74	53
Uruguay	65.73	7	9.29	2	36	3
Italy	-	-	-	-	18	19
TOTAL	3,999.92	2,816	6,117.41	4,274	6,792.16	4,342

Source: Global Trade Atlas

A U.S pet food manufacturer or ingredient manufacturer for pet food industry must be registered at the Brazilian Ministry of Agriculture (MAPA) as a prerequisite for exporting to Brazil. The registration is handled by the Brazilian importer/distributor. The MAPA office responsible for registering and regulating animal feeds is the Department of Animal Production Inspection and Development (DFIP). The import duty on dog food is 14 percent which is the same for cat food. The import tariff for the ingredient category will depend on the type of ingredient. Imports from Brazil's MERCOSUR partners, Argentina, Uruguay and Paraguay, are duty free.

The labeling on imported pet food is mandatory and follows Brazilian regulations which among other things require clear, accurate and easily readable product information, including quantity, composition, expiration date and country of origin. According to the Brazilian legislation, importers are responsible for plant registration and label registration as well.